International Journal of Computer Science Engineering and Information Technology Research (IJCSEITR)
ISSN(P): 2249-6831; ISSN(E): 2249-7943
Vol. 5, Issue 1, Feb 2015, 1-6

IS VALUATION OF FLIPKART AT $5 BILLION JUSTIFIED?

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ABSTRACT

With the high penetration of smartphones in India and with improving Internet connectivity, e-commerce firms are expected to reach millions of new users in the coming years. Global financiers are lining up to invest in India's fledgling online retailers. Further, the changes in India's expanding online retail landscape indicate how shopping experiences will be shaped in future. Valuation of Flipkart at $5 Billion is often sited as a fitting prologue to such a prophecy. This article is an investigation into the problem – whether this $5 Billion evaluation is justified or not?

KEYWORDS: E-Commerce, Online, Flipkart, Internet, IT, Valuation, Startups, Billion, Online Retail, Digital, Sales, Capitalism, Technology, Business, Investors, Shopping, Service, Investment, E-Tailer

INTRODUCTION

With 200 million Internet users expected to touch an estimated 500 million by 2020, India is geared up for a digital take-off. With digital penetration increasing and advanced IT analytics software helping understand customers better, e-commerce players can combine home delivery with deep insights .E-commerce has certainly become the new retail. Progressively this can cut on real estate costs while boosting sales volumes. In competitive capitalism, big money always chases the top players. As the largest entrenched local player, Flipkart has an incumbent advantage. Its revenues multiplied five-fold during 2012-13 in a single year. As E-commerce is a service-oriented business. Online retailers do not need physical stores or staff to manage them instead they invest primarily in technology and inventory. The Cash on Delivery (COD) payment option has helped overcome the indolence amongst customers who are uncomfortable with online purchasing. Companies like Flipkart focus on delivery and prompt service. Given the nascent stage of e-tailing in India, companies are extremely focused on customer experience with a number of features such as large discounts, (COD), free shipping and liberal return policies, said a Nomura report on e-commerce in India. Catering to customer needs has thus helped Flipkart grow fast. Young CEOs like Sachin Bansal and Binny Bansal have proved that those with strong technology and management bandwidth have the potential to scale up the company. The power of e-commerce was validated when Motorola tied up with Flipkart for the exclusive launch of Moto-G in India before the rest of the world and when the whole stock of Xioami Mi3 was sold out in some seconds. Mobile gives much more data as compared to desktop as people browse more often thereby providing the user a lot more information with convenient localized experiences. Flipkart definitely benefits as more than 50% revenue comes from mobile.

The genesis of the thought to set up flipkart came from the bad quality service provided by competitors. As a startup company with ambitions in the ecommerce domain had to choose a category that could facilitate getting started quickly. The low transaction size helped induce customer trials. Using basic economics to keep the costs low enabled them to have a strong foothold on the consumer market. To procure orders from small distributors founders recall going across

roads of Bangalore seven years ago when Flipkart was started as an online platform for selling books. Flipkart bookmarks were given only to those who were coming out of stores with purchased books in their hands before they came up with sophisticated marketing strategies. Flipkart would be ready with its IPO after they stabalize their buisness model exploring set of changes that has to incorporated on account of change in market trends. Solving challenges Flipkart would also be ready to provide apt opportunities for youngsters. As people spend a major amount of time surfing the internet the future of this company looks very reassuring. The delightful dream of crossing the $100 billion-mark would be still a arduous task considering the parlous state of economy.

Flipkart has its own competitiors: Global online retailer Amazon is entering India and is busy building five warehouses, while the government is expected to allow 100% FDI in e-commerce. Reliance Retail is expanding furiously as well. Flipkart has the option of selling out to either, if it is not ready for an IPO or partner with the likes of Tatas, Future Retail or Aditya Birla Group. In 2012, Bansals raised $150 million from investors such as Nasper, Tiger Global and Accel Partners, which valued the company at $850-$900 million. Later, Flipkart's existing investors Naspers, Accel and Tiger Global invested $200 million (Rs 1,200 crore) in the company, valuing it at about $1.5 billion (Rs 9,150 crore according to the exchange rate in July). Figure 1 clearly puts Flipkart among billion dollar startups around the world.

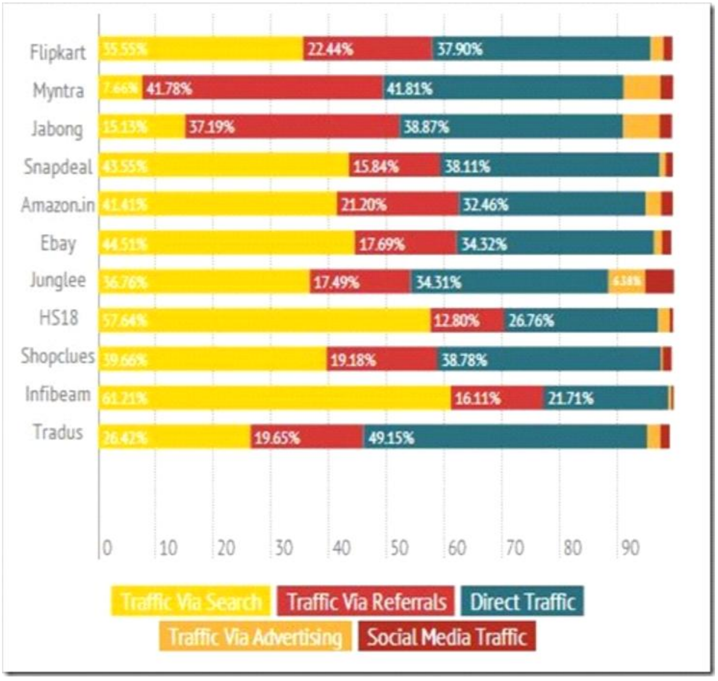
Source: Https://Twitter.Com/Statistacharts

Figure 1

There is a significant jump to Rs 1,180 crore the company reported in 2012-13 from Rs 205 crore reported in 2011-12. This shows the demand for goods ordered online is rising rapidly in India. Considering such valuation, banking sources assume that Bansals had sold 16 per cent stake in the company as they had already diluted 13 per cent stake in the venture . Recent acquisition of Myntra, shows a strategic behaviour in their decision. Although Flipkart founders dont wish to divulge any details about sales or valuations. Anlaysts believe that Flipkart's valuations reflects the sales numbers and the real enterprise valuation must be higher than proposed valuation. Normally, e-commerce firms such as Amazon, Reliance, etc, have high valuations because of high growth rates. Since Flipkart grew 10 times in the last one year, investors must be putting their bets on that. Flipkart is a technology driven company with a big focus on software creation and analytics. As a tech company, it can potentially be a futuristic play in the market. The government is allowing foreign retailers who manufacture in India to sell through e-commerce platforms. There are also literally hundreds of thousands of Indian companies who may want to use Flipkart as an online 'Walmart' where anything can be sold. This is the virtual

equivalent of a humongous chain of stores. Figure 2 gives an idea how the listed sites generate traffic.

The largest-ever fund raising by an Indian startup, gave Flipkart's the necessary wherewithal to take on Amazon India and widen its lead over other rivals. This massive funding has certainly raised its valuation to 5 billion dollars. But does it deserve such high valuations? According to an Economic Times report, Flipkart is worth over 10 times than Kishore Biyani's Future Retail, which had 319 stores in 98 cities and towns, as of March 2014. On the flip side, the Bansals-led Flipkart had six warehouses and zero stores. Future's revenues were about two times and its assets 23 times that of Flipkart. Future is profitable, whereas Flipkart is yet to post a profit. According to a Business Standard report, Flipkart India (FIPL) posted a net loss of Rs 192 crore for the year ended March 2013, taking the total accumulated losses to Rs 281.73 crore. Its total revenues for the Financial Year 13 stood at Rs 1,180 crore.



Source: [Http://Definitecommerce.Com/Top-10-Indian-E-Commerce-Sites-Traffic-Comparison/]

Figure 2

This is because it is constantly investing in expansion. It is not just analysts who believe Flipkart is overvalued right now even KunalBahl, the founder of India's second-largest e-tailer Snapdeal, retorted to Economic Times in an obvious reference to Flipkart:

"*There is a company whose valuation is ridiculously high and there are a bunch of investors there already who have put in a lot of money.*"

Flipkart rivals Snapdeal and Jabong among others are under pressure to raise capital in order to keep their head above water, especially after the advent of world's largest online retailer Amazon in India last year. Just a day after Flipkart's fund raising, Amazon pledged to infuse USD 2 billion in its India arm. It is not just online players who are eyeing the Indian e-commerce boom. Physical retailers are also making a beeline to the online space, with most of them either already having a set shop or making plans to do so. Analysts estimate that the Indian internet and e-commerce industry is worth $10 billion or Rs 60,000 crore currently. In six years, it could grow to $ 90 billion or Rs 5, 40,000crore,

according to one estimate. Investors are looking at a similar pattern of growth in China. The internet and e-commerce companies are worth $230 billion today. They were worth only $4 billion in 2003. “India’s internet penetration lags China by 6-7 years. If this is the template we use, India’s listed internet/e-commerce market-cap could be about $40 billion by 2017 and $90 billion by 2020,” according to estimates by Jefferies, a European bank. Flipkart said it will use the funds to expand its logistics network, build more warehouses, supply chain improvisation, talent management, spend on marketing, discounts and acquire companies. The company said the gross value of merchandise sold on the website has already reached USD 1 billion. With the smart phone-backed Internet revolution taking shape in India, online retail sales are expected to cross the USD 30 billion-mark within the next five years. It is this potential of the market that is keeping investors interested, despite the fact that no Indian online player has been able to successfully crack the code on ‘how to make profits’ so far.

Indian capital market is desperately short of expermenative investors who can pour money into novel companies like Flipkart. Surely capitalistism has raised its bar and the markets have seen the change. Capitalism needs inspiring stories because there's no fixed and grand human narrative that underpins the theory of capitalism. Capitalism is certainly the most rational economic system. Consumer capitalism, sponsored by the Americans has an aching need to write and celebrate heroes of capitalism. In a system that inevitably produces unequal outcomes but promises a fair chance to many, expermenative investors are validation of the promise and appear to be a mitigation of the inequality. America's history of capitalism is awash with such stories which are essential and critical. Indian capitalism has half emerged from the Nehruvian embrace and in the emerged half one can see some ugly marks of crony capitalism, which itself is a byproduct of Nehruvian socialism. So, for reasons that have to do both with the general social logic of capitalism and the specific condition of Indian capitalism, such stories are generated and they go viral as new success myths. Conventional, controversial, ornery and older – some combination of these four attributes defines most of India Inc. Investors everywhere are hungry for good capitalism stories. Bubbles are one result of that hunger. One over-bets on some stories which basically is a bubble. Those looking to get invested in Indian capitalism are therefore hungry for a story like Flipkart.

CONCLUSIONS

One needs to find answers to handful of questions before eulogizing the $5 Billion evaluation of Flipkart and Bansals. Is Flipkart success story real or a conspiracy of capitalist myth making? Does consumer capitalism which supports the advertising industry also creates the Flipkart success myth? Will Indian market open itself to the possibility of high involvement products such as automobiles and apartments? Certain facts too need to be mentioned her. Though is valued 5 billion dollars statistically, it is more due to the funding it has received. The journey of e-commerce in the future may be rough and may require more efforts from both entrepreneurs and investors. To stand the test of time, Indian companies need a mixed-approach implementation that is influenced by globally tested strategies, along with local elements. It is indeed a fact that e-commerce might have failed in the past decade but this time around, it has shown growth more rapidly than ever. To sum up, one can state that Capitalist market based on e-commerce has surely hit India but to mark growth, it needs more investors with ample appetite for investing on newbees than mere success stories such as that of Flipkart.

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